

Message Text

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ACTION EB-08

INFO OCT-01 EUR-12 IO-13 ISO-00 TRSE-00 STRE-00
AGRE-00 CEA-01 CIAE-00 COME-00 DODE-00 FRB-03
H-01 INR-07 INT-05 L-03 LAB-04 NSAE-00 NSC-05
PA-01 CTME-00 AID-05 SS-15 STR-07 ITC-01 USIA-06
PRS-01 SP-02 SOE-02 OMB-01 DOE-11 AF-10 ARA-10
EA-10 NEA-10 OIC-02 /157 W
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FM USMISSION GENEVA
TO SECSTATE WASHDC 5456
INFO AMEMBASSY ANKARA

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PASS STR ELECTRONICALLY FOR STEWART

PASS TREASURY

E.O. 11652: N/A
TAGS: ETRD, GATT, TU
SUBJECT: GATT BOP CONSULTATIONS - TURKEY

REF: (A) STATE 18328, (B) STATE 18320

1. SUMMARY: GATT BOP COMMITTEE RECOGNIZED MULTIPLICITY OF ECONOMIC PROBLEMS FACING TURKEY AND NEED TO CONTINUE TRADE RESTRAINTS FOR BOP PURPOSES. COMMITTEE WILL RECOMMEND WAIVER FOR STAMP DUTY OF UP TO 25 PERCENT FOR TWO-YEAR PERIOD WITH REQUIREMENT THAT TURKEY REPORT TO COMMITTEE AFTER ONE YEAR ON PROGRESS MADE TOWARD ELIMINATING DUTY. TURKISH REPS TALKED A LOT BUT SAID LITTLE, OBVIOUSLY RELUCTANT OR UNABLE TO SPELL OUT GOT ECONOMIC POLICIES AT TIME WHEN GOVERNMENT IN TRANSITION. END SUMMARY.

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2. GATT BALANCE OF PAYMENTS COMMITTEE MET JANUARY 26 AND 31 TO CONSULT WITH TURKEY CONCERNING TRADE RESTRICTIONS MAINTAINED TO PROTECT TURKEY'S BALANCE OF PAYMENTS AND TO CONSIDER THE TURKISH REQUEST FOR A MODIFICATION OF ITS GATT WAIVER FOR THE STAMP DUTY.

3. TURKISH DEL STATEMENT OUTLINED PRECARIOUS FINANCIAL POSITION OF TURKEY, GROWING BALANCE OF PAYMENTS AND DEBT SERVICING PROBLEMS. TURKISH REP ARGUED THAT DESPITE THESE PROBLEMS TURKEY IS COMMITTED TO FREER TRADE AND HAS PROGRESSIVELY LIBERALIZED ITS IMPORT REGIME IN RECENT YEARS BY ADDING COMMODITIES TO THE QUOTA LIST AND BY SHIFTING ITEMS FROM THE QUOTA TO THE LIBERALIZED LIST. DEL INDICATED THAT INCREASED NEED FOR REVENUE TO OFFSET HUGE BUDGETARY DEFICIT NECESSITATED AN INCREASE IN THE STAMP DUTY TO 22.5 PERCENT FOR GATT MEMBERS AND 24.5 PERCENT FOR ALL OTHERS. HE ARGUED THAT EFFECTIVE AVERAGE RATE, HOWEVER, WILL RAISE FROM 6 PERCENT TO 15 PERCENT BECAUSE OF LARGE NUMBER OF EXEMPTIONS RELATED TO DEVELOPMENT PLAN.

4. IMF REP (NOWZAD) POINTED OUT THAT TURKEY'S PROBLEMS STEM FROM CONTINUED ADHERENCE TO AN AMBITIOUS GROWTH PLAN (8 PERCENT PER ANNUM) AT TIME WHEN WORLD IN ECONOMIC RECESSION. TURKEY'S DRIVE FOR GROWTH, HOWEVER, STIMULATED MAINLY BY EXPANSIONARY ECONOMIC POLICIES, HAS LED TO INCREASING BUDGETARY DEFICITS AND HAS RESULTED IN A SERIOUS DETERIORATION IN ITS EXTERNAL FINANCES. ESTIMATED CURRENT ACCOUNT DEFICIT IN 1977 IS \$3,000 MILLION WITH BOP DEFICIT OF \$2,300 MILLION. NOWZAD ALSO POINTED TO PRECARIOUS DEBT STRUCTURE WHEREBY DEFICITS HAVE BEEN FINANCED LARGELY FROM AN INCREASE LIMITED OFFICIAL USE

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IN SHORT-TERM DEBTS AND TO LARGE PAYMENT ARREARS. HE NOTED THAT STAMP DUTY ACCOUNTED FOR 4.3 PERCENT OF TAX REVENUE AND RECOMMENDED THAT IT BE REPLACED AS SOON AS POSSIBLE BY OTHER FISCAL MEASURES IN THE CONTEXT OF A PROGRAM TO RESTORE EXTERNAL BALANCE AND INTERNAL STABILITY. NOWZAD CONCLUDED THAT STAMP DUTY OF 25 PERCENT CAN BE JUSTIFIED ON ONLY A VERY TEMPORARY BASIS.

5. MEMBERS OF THE COMMITTEE FOCUSED THEIR QUESTIONS INTER ALIA ON THE BUDGETARY DEFICIT AND THE NEED FOR ALTERNATIVE POLICY MEASURES TO RESTORE EQUILIBRIUM, INCLUDING DEVALUATION. TURKISH DELS (AMBASSADOR YAVUZALP, MINISTER KAFALOGLU, ERDOGAN ONER - MINISTRY OF FINANCE, YALCIN BURCAK - MINISTRY OF COMMERCE, INCI KARABACAK - MINISTRY OF FINANCE, TEVFIK CAN - STATE PLANNING) SPOKE AT LENGTH BUT AVOIDED DIRECT ANSWERS TO MOST QUESTIONS, ARGUING THAT IT IS TOO EARLY IN NEW GOVERNMENT TO GIVE CLEAR INDICATION OF POLICY DIRECTIONS. PERTINENT RESPONSES WERE THE FOLLOWING:

A. BUDGETARY DEFICITS -- TURKISH REP SAID THAT NEW GOVERNMENT WOULD PURSUE THE PREVIOUS GOVERNMENT'S

BUDGETARY POLICY AND NO SIGNIFICANT CHANGES WOULD BE
SUBMITTED TO PARLIAMENT. 1978 WOULD BE A YEAR OF
STABILIZATION FOR THE TURKISH ECONOMY.

B. FOREIGN INVESTMENTS -- TURKISH DEL ADMITTED
THAT LONG-TERM PRIVATE CAPITAL INFLOWS OF \$50 MILLION
WERE SMALL FOR COUNTRY THE SIZE OF TURKEY BUT SAID
PROBLEM RESULTED BECAUSE DEVELOPMENT PLAN OBJECTIVES
DID NOT COINCIDE WITH PRIVATE INVESTORS PREFERENCES.
NEW GOVERNMENT "COULD" RE-EXAMINE THIS QUESTION.

C. DEVALUATION -- REPRESENTATIVE OF TURKEY CONFIRMED
THAT THE 10 PERCENT DEVALUATION OF THE LIRA IN SEPTEMBER
1977 HAD CONTRIBUTED TO REDUCE THE BALANCE OF
PAYMENTS DEFICIT BY PROMOTING EXPORTS AND REDUCING
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IMPORTS. HE QUOTED THE FOLLOWING MONTHLY TRADE FIGURES:

EXPORTS BEFORE SEPTEMBER 1977 \$146 MILLION, AFTER DEVALUATION \$187 MILLION; FOR IMPORTS BEFORE SEPTEMBER 1977 \$463 MILLION, AFTER DEVALUATION \$350 MILLION. WE AND OTHER DELS NOTED THAT DEVALUATION IS AN ALTERNATIVE POLICY TO TRADE RESTRICTIONS WHICH MIGHT BE RESORTED TO BENEFICIALLY IN THE FUTURE.

D. DEVELOPMENT PLANS -- WE AND OTHER DELS QUESTIONED TURKISH GROWTH PLANS IN VIEW OF CHANGED WORLD ECONOMIC SITUATION AND ASKED IF NEW GOVERNMENT WERE GOING TO RE-EXAMINE THEM IN LIGHT OF CHANGED ECONOMIC REALITIES. TURKISH DEL SAID HE COULD NOT ANSWER.

E. ARREARS -- TURKISH DEL SAID THAT PAYMENT ARREARS AMOUNT TO \$1,700 MILLION AND THAT PAYMENTS WOULD LIMITED OFFICIAL USE

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RECOMMENCE ACCORDING TO DATE OF IMPORTS.

F. CUSTOMS SURCHARGE, QUAY DUTY AND PRODUCTIONS TAX -- TURKISH DEL ACKNOWLEDGED THAT COMPLEX IMPORT PROCEDURES WERE DETRIMENTAL TO TRADE BUT SAID THAT HIGHER RATE OF DEVELOPMENT IN TURKEY WOULD LEAD TO RATIONALIZATION OF PROCEDURES. ON GATT LEGALITY, HE SAID THAT CUSTOMS SURCHARGE PREDATED GATT (1933) AND THAT ITS PROCEEDS WERE DESTINED FOR MUNICIPALITIES. FIVE PERCENT QUAY DUTY HAD BEEN APPLIED SINCE 1935 AND WAS USED TO PAY PORT SERVICES. HE POINTED OUT THAT 90 PERCENT OF IMPORTS ARRIVE BY SHIP AND COSTS OF MAINTAINING PORT CUSTOMS IS HIGH. PRODUCTION TAXES HAD BEEN APPLIED SINCE 1933 AND WERE EQUIVALENT TO INTERNAL TAXES ON DOMESTIC PRODUCTION.

G. GUARANTEE DEPOSITS -- TURKISH DEL SAID THAT GUARANTEE DEPOSIT VARIED BETWEEN 2.5 AND 40 PERCENT AND WAS NOT A PRIOR DEPOSIT IN THE SENSE OF BEING USED TO RESTRICT IMPORTS. HE SAID THAT RATE APPLIES TO ALL IMPORTS BUT IS LOWER FOR INDUSTRIALISTS THAN FOR REGISTERED IMPORTERS SO AS TO REDUCE THE COST OF IMPORTS TO PRODUCERS.

6. STAMP DUTY -- DISCUSSION OVER AMENDMENT OF WAIVER FOR STAMP DUTY OCCUPIED MAJOR SHARE OF CONSULTATION PLUS SEVERAL INFORMAL SESSIONS. WE ARGUED FOR SIMPLE ONE YEAR WAIVER BUT TURKS SAID THIS WAS UNACCEPTABLE AND INDICATED THEY WOULD TAKE MATTER TO GATT COUNCIL WHERE ISSUE LIKELY TO TAKE FORM OF LDC-DC CONFRONTATION. SEVERAL VARIOUS FORMULATIONS WERE PROPOSED WITH EC SUGGESTING THAT WAIVER BE GRANTED FOR TWO YEARS WITH FIRST YEAR AT 25 PERCENT BUT SECOND YEAR AT PREVIOUS LEVEL OF

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10 PERCENT. TURKS SAID THEY COULD NOT COMMIT NEW GOVERNMENT TO THIS BECAUSE IT MIGHT TAKE LONGER TO GET NECESSARY LEGISLATION TO MAKE CHANGES IN ECONOMIC POLICY. WE POINTED OUT THAT THERE IS A CLEAR RELATIONSHIP BETWEEN RATE OF EXCHANGE AND STAMP DUTY; IF TURKS DEVALUE LIRA, STAMP DUTY CAN BE SET AT LOWER LEVEL AND STILL OBTAIN THE SAME REVENUE. TURKS ACKNOWLEDGED THIS RELATIONSHIP (REPORT WILL SAY PRESENT RATE BASED ON CURRENT EXCHANGE RATE) BUT SHIED AWAY FROM ANY STATEMENT OR CONDITION IMPLYING DEVALUATION. COMMITTEE FINALLY AGREED ON TWO-YEAR WAIVER WITH LIMIT OF 25 PERCENT ON SAME TERMS AS PREVIOUS WAIVER BUT WITH FOLLOWING TWO ADDITIONS: WAIVER WILL TAKE NOTE "OF THE VIEW OF THE IMF THAT THE STAMP DUTY CONSTITUTES AN IMPORTANT SOURCE OF REVENUE BUT THAT IT SHOULD BE REPLACED BY ALTERNATIVE FISCAL MEASURES IN THE CONTEXT OF A PROGRAMME TO RESTORE EXTERNAL BALANCE AND INTERNAL STABILITY." WAIVER WILL HAVE CONDITION THAT "THE GOVERNMENT OF TURKEY SHALL REPORT ONE YEAR FROM THE DATE OF THIS WAIVER ON THE PROGRESS MADE TOWARD AND INTENTIONS TO SUBSTITUTE OTHER ECONOMIC MEASURES FOR THE STAMP DUTY." TURKS RESISTED WORD ECONOMIC IN LAST SENTENCE, BUT OTHER MEMBERS REFUSED TO CHANGE, NOTING THAT THIS COVERS POSSIBILITY OF BOTH FISCAL MEASURES (I.E., VAT) AND DEVALUATION.

7. COMMITTEE REPORT WILL BE POUCHED ANKARA.
SORENSEN

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